



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

EXHIBIT 3

DATE 01/21/13

HB 2

DATE: January 18, 2013

TO: Senator David Wanzonried

FROM: Kris Wilkinson, Senior Fiscal Analyst

RE: General Fund Loan for the Libby Settlement

You requested information on providing a general fund loan in the amount of \$26.8 million to reestablish reserve funding for the State Property/Casualty Insurance Fund. This fund was the source of the state payment for the settlement with the victims in Libby who had been impacted by asbestos and would be included as the source of the fund to repay the loan. As you know, the state is self-insured for insurance including general liability. The insurance premiums assessed agencies are funded:

- 16% General Fund
- 22% State Special Revenue
- 4% Federal Special Revenue
- 29% Proprietary Funds
- >1% Private Funds
- 29% Montana University System
- >1% Trust Funds

17-2-107, MCA provides authority for general fund loans to state agencies. The loan must be repaid within a calendar year unless extended under statutory requirement or **by specific legislative authorization** (emphasis added). The legislature may request and pass a bill allowing the general fund loan, over a specific time period, and require the State Property/Casualty Insurance Fund as the source of the repayment. If the subcommittee wishes to request a subcommittee bill this requires a 3/4 vote of the subcommittee.

It should be noted that because this would be considered a long-time debt of the state, a 2/3 vote in both houses of the legislature would be required to enact the legislation.

In addition, there is a question of whether or not interest should be included. General fund loans made to agencies and repaid within a year do not incur interest. However, depending on the period of repayment the legislature may wish to consider requiring interest on the funding as the general fund is invested and the resulting interest related to this amount would be lost.

I discussed this with David Ewer, Executive Director, Board of Investments. He believes that the legislature has a couple of considerations. The STIP rate is currently 0.24% and therefore does not generate much interest, as it is used for short-term investments only. He discussed another rate (more consistent with the potential loss to the general fund) would be the 10 year Treasury yield of 1.89% with an additional amount of 1.0% added on to ensure a reasonable return on the loan. Another rate that could be used would be the 10 year municipal bond rate, which is currently 1.45%. Depending on the length of the repayment of the loan the 20 year municipal bond rate could also be used, which is 3.55% currently. Figure 1 provides the rates I discussed here and the monthly and annual costs for each. I provided estimates for repaying the loan over 10, 15, and 20 years.

It should be noted that if HB 3 were approved as proposed, the interest to the general fund would be lost on the \$26.8 million.

Figure 1

Department of Administration					
Risk Management and Tort Defense Division					
Costs of Providing a General Fund Loan of \$26.8 million					
10 Year Amortization					
	Rate=0.24%	Rate=1.45%	Rate=1.89%	Rate=2.89%	Rate=3.55%
Monthly	(\$226,046)	(\$240,051)	(\$245,278)	(\$257,424)	(\$265,642)
Annual	(2,712,557)	(2,880,610)	(2,943,337)	(3,089,091)	(3,187,708)
Total	(\$27,125,566)	(\$28,806,099)	(\$29,433,366)	(\$30,890,907)	(\$31,877,076)
15 Year Amortization					
	Rate=0.24%	Rate=1.45%	Rate=1.89%	Rate=2.89%	Rate=3.55%
Monthly	(\$151,600)	(\$165,757)	(\$171,106)	(\$183,661)	(\$192,247)
Annual	(1,819,198)	(1,989,079)	(2,053,274)	(2,203,936)	(2,306,967)
Total	(\$27,287,974)	(\$29,836,192)	(\$30,799,117)	(\$33,059,043)	(\$34,604,503)
20 Year Amortization					
	Rate=0.24%	Rate=1.45%	Rate=1.89%	Rate=2.89%	Rate=3.55%
Monthly	(\$114,379)	(\$128,707)	(\$134,185)	(\$147,161)	(\$156,119)
Annual	(1,372,551)	(1,544,482)	(1,610,220)	(1,765,929)	(1,873,424)
Total	(\$27,451,025)	(\$30,889,636)	(\$32,204,400)	(\$35,318,576)	(\$37,468,478)

I have requested that the Risk Management and Tort Defense Division use the various repayment amounts to determine the impacts on the rates. Brett Dahl, Division Administrator should be able to provide those by next Tuesday, January 22. You may wish to contact him to confirm you would like the additional information.

If you have any questions or need additional information please contact at 444-2722 or through my email.